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BEXP, KIPR, KWMN, SNAR, IN

SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF JANUARY 27 TO JANUARY 30, 2009

¶1. (U) Below is a compilation of economic highlights from Embassy New Delhi for the week of January 27-30, 2009, including the following:

-- Govt, Central Bank Lower GDP Projections
-- Study Projects $6-10 billion for India from EU FTA
-- Study Projects Continued Growth in Higher-Income Households
-- GOI Official Arrested for Drug Smuggling
-- Cabinet Clears Infrastructure Projects worth $7 billion
-- Karnataka Government to Build High Speed Rail Link
-- IT Titans Slug it Out for Fidelity

Govt, Central Bank Lower GDP Projections

¶2. (U) The Prime Minister's Economic Advisory Council (EAC) issued its semi-annual "Review of the Economy," revising downward its GDP growth projection from 7.7% (made last August) to 7.1% for the current fiscal year, which ends March 31. While this comes closer to private sector and IMF projections in the 6-7% range, it still remains slightly more optimistic than consensus projections. The EAC is more upbeat about the services industries, expecting more than 9% growth in the subsectors of hotel and transport and finance and insurance, sectors apparently hit hard by both the financial crunch and the world economic slowdown. More surprising is the EAC's forecast that growth in India's fiscal year 2009/10 (April 1 to March 31) will range between 7-7.5%, when the IMF and private analysts are calling for India's growth to be closer to 5.5%. The EAC argues that global capital markets will improve before global demand does, allowing India to more quickly recover, combined with what it deems a sufficient fiscal stimulus to sustain domestic demand and growth.

¶3. (SBU) India's central bank, the Reserve Bank of India (RBI), also issued downgraded GDP projections as part of its scheduled quarterly policy review, released January 27. The RBI lowered its expectations for India's economic growth rate for the current fiscal year from 7.5-8% to 7%, again slightly higher than most market projections. The RBI pointed to several recent business expectation surveys, where industrialist outlook had declined since October ¶2008. Surprising some (market expectations were mixed), the central bank left all policy rates unchanged, although consensus supports room for more interest rate reductions, as inflation continues to moderate. (Note: Some analysts expect inflation to turn negative for several months in April-June quarter. End note.) The market sense is that more interest rate reductions are in store in the next several months, perhaps by end-February, as expectations rise that national parliamentary elections will be called then.

Study Projects $6-10 billion Gain for India from EU FTA

¶4. (U) A European Commission-sponsored study conducted jointly by the Netherlands-based research organization ECORYS, and India-based organizations Center for Trade and Development (CENTAD) and Consumer Unity & Trust Society (CUTS), has projected substantial Indian gains from a Comprehensive Economic Partnership Agreement (CEPA) with the EU. The EU and India launched talks on the CEPA - roughly equivalent to a comprehensive free trade agreement - in 2007. Negotiations have lagged since then, missing a 2008 year-end target date for completion.

¶5. (U) The study projects the CEPA could add 4.9-7.7 billion euros (about $6.3 - $10 billion) to Indian GDP, depending upon four different scenarios of relaxed trade conditions while gains for the EU will be a maximum of 4.4 billion euros ($5.6 billion). The proposed CEPA will cover liberalization of goods trade through reduced or zero tariffs, greater market access for services, and easier investment norms. However, the agricultural sector is entirely excluded from the CEPA. In terms of overall export growth, the study projects that the agreement could add 5 to 10 percentage points to India's overall export growth depending on what amount of goods are freed for zero import duty trade. 21 per cent of India's

exports go to the EU, but this share accounts for less than 2 per cent of the EU's total imports.

¶6. (U) While the study points out gains in specific sectors like textiles, it also projects possible job losses because of the impact of the agreement on sectors such as automobiles and food processing. According to the joint study, the Indian apparel sector could be one of the main beneficiaries of the CEPA. In the auto and auto component sectors, the study projects Indian exports growing 7-13 per cent due to the agreement; but imports will also increase in the range of 30-47 per cent. Some job losses are also expected in the automobile space as inefficient producers are expected to be wiped out. In addition, some local trade experts feel that the Indian food processing industry could be adversely impacted because of cheap imports.

Study Projects Continued Growth in Higher-Income Households

¶7. (U) According to an analysis conducted by the National Council of Applied Economic Research (NCAER) the number of low-income households (annual income less than 71,000 rupees or $1,450) in India dropped 11 percent between 2005 and 2008. The study projects that fiscal year 2009-10Qll witness the number of high-incomeQuseholds (approximately 46.7 million earning more than 2.85 lakh rupees or $5,800/year) outnumbering low-income households (about 41 million) in India for the first time ever with over five million mid-income households (those earning between $1,450 and $5,850) moving into the high-income group. In addition, the number of middle-income households is projected to rise to 140.7 million for 2009-10 from 138.4 million in 2008-09. The NCAER analysis was based on the assumption of Indian GDP growth of 6.7 percent for 2008-09 and 5.7 percent for 2009-10, taking into account the expected slowdown in growth from the global recession.

GOI Official Arrested for Drug Smuggling

¶8. (U) Saji Mohan, a 1995 batch IPS officer from the J&K cadre was arrested in Mumbai on January 24Qth over 38 kilograms of heroin. Saji was a former zonal director of the Narcotics Control Bureau (NCB) Chandigarh from 2007 to 2008 before he was transferred to Kochi in Kerala on December 31, 2008 as Deputy Director of the Enforcement Directorate. He was arrested by the Maharashtra Anti Terrorism Squad (ATS) for allegedly running a drug racket. While he was with the NCB, a large consignment of heroin, weighing about 50 kg was seized under his supervision. According to the ATS, Mohan illegally set aside several kilograms of heroin and the racket was exposed by two of Mohan's agents who were arrested on January 17 while trying to "circulate" the heroin.

Cabinet Clears Infrastructure
Projects worth $ 7 billion

¶9. (U) As part of the GOI effort to boost the slowing economy, the Indian Cabinet Committee of Economic Affairs (CCEA) on January 28 cleared infrastructure projects worth approximately USD 7 billion. One of the major projects includes an investment of USD 3 billion for a Chennai metro project which is scheduled for completion in 2014-15. The metro's total length will be 45 km, of which 21 km would be elevated and the remaining 24 km underground. Funding for the project will be divided equally between the central government and the Tamil Nadu state government. The project's special purpose vehicle (SPV) has secured 59 percent of the funding through a development assistance loan from the Japanese International Cooperation Agency (JICA).

¶10. (U) The Cabinet also approved the Delhi Metro Railways Amendment Bill of 2009 which significantlQimits legal challenges to the GOI project extending the meQ into Noida and Gurgaon. This is an effort by the central government to remove a key legal barrier to construction delays ahead of the scheduled completion of the project

in 2010 for the Commonwealth Games. The committee also approved road projects valued at USD 4 billion for six-lane highways of nine stretches totaling 1409.93 km which will be built on Design, Build, Finance, Operate, and Transfer (DBFOT) basis under Phase V of the National Highways Development Project (NHDP). This includes important stretches such as the Delhi-Agra, Kishangarh-Udaipur, and Vijayawada-Elluru-Rajahmundry routes. Another major road project includes the four-lane highway of the Vijayawada-Machilipatnam section of national highway 9 in Andhra Pradesh under Phase III of the NHDP on a DBFOT basis. The Cabinet also cleared FDI of approximately USD 200 million for the Krishnapatnam Port Company Ltd, which is currently developing the Krishnapatnam port area in Andhra Pradesh.

Karnataka Government to Build High Speed Rail Link
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¶11. (SBU) Karnataka's government made a formal decision on January 22 to construct a high-speed rail link between Bangalore's central business district and its new airport 40 kilometers to the north. Initial plans to build the link as a public-private partnership floundered as the private partner proved unable to raise requisite funds. A top Government of Karnataka Finance Ministry official told Consulate General Chennai that the state hopes to raise the necessary funding from financial institutions owned by the central government. An aide to Karnataka's Chief Minister told us that the process of land acquisition for the project was still incomplete and that a decision on the specific type of rail system has not been reached. He did, however, tell us that he expects construction of the project to start in mid-2009. (Comment: Given the obstacles yet to be overcome in securing funding, procuring land, and deciding on the appropriate system, expecting any real construction to begin this year seems overly optimistic.)

IT Titans Slug it Out for Fidelity

¶12. (SBU) Infotech industry titans IBM and Infosys are locked in a battle to acquire Fidelity Management and Research (FMR), the research and analysis arm of Fidelity Investments centered in Bangalore and Chennai. At stake is a highly prized army of more than 2000 extremely skilled employees based in the two cities, as well as business worth USD 250 million annually. News reports suggest that the selling price will be in the USD 150 million to USD 160 million range, with a requirement that the buyer retain all of FMR's staff for at least two years. An IBM executive told Consulate General Chennai that Fidelity has been an IBM customer for over two decades, enhancing his company's chances. An Infosys senior manager told us, however, that his company placed a higher value on FMR because of its top-notch talent, and was likely to be willing to pay more than IBM. He noted that the eventual winner of this struggle, whoever it might be, would add considerable expertise and ability, allowing that company to move up the value chain.

¶13. (U) Visit New Delhi's Classified Website:
http://www.state.sgov/p/sa/newdelhi

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